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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 IO-13 FS-01 ABF-01 /108 W
----------060328 101456Z /75
R 101316Z MAY 78
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC 2226

LIMITED OFFICIAL USE SECTION 1 OF 2 CARACAS 4279

E.O. 11652: NA
TAGS: EFIN VE
SUBJECT: CENTRAL BANK RESERVES AT LOWEST POINT IN TWO
YEARS

REF: CARACAS 437

SUMMARY. FOREIGN EXCHANGE RESERVES HELD BY THE CENTRAL BANK CONTINUE THEIR DOWNWARD TREND, DECLINING BY OVER $700 MILLION IN APRIL TO $7.5 BILLION. WHILE INFLOWS OF FOREIGN CURRENCY DURING JANUARY -APRIL OF 1978 INCREASED BY 36 PERCENT OR 1.1 BILLION OVER THE SAME PERIOD OF 1977, OUTFLOWS INCREASED BY 42 PERCENT OR $1.4 BILLION. THE SITUATION RESULTS FROM A COMBINATION OF A DECLINE IN OIL REVENUES, INCREASED REMITTANCES ABROAD AND A CONTINUED HIGH LEVEL OF IMPORT PAYMENTS. AS INDICARED IN REFTEL, THE DECLINING TREND IS EXPECTED TO LAST INTO 1979. GIVEN THE STILL HIGH LEVEL OF RESERVESPLUS AVAILABLE ASSTS NOT COUNTED AS RESERVES BUT AVAILABLE TO THE GOV, VENEZUELA CAN LIVE WITH THE SITUATION FOR SOME TIME UNLESS UNFORESEEN DEVELOPMENTS PROMPT MASSIVE PRIVATE TRANSFERS OF FUNDS ABROAD. IMLICATIONS FOR U.S. INCLUDE POSSIBLE ADDITIONAL IMPORT RESTRICTIONS, INCREASING GOV RELUCTANCE TO MAKE
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FUNDS AVAILABLE FOR INTERNATIONAL DEVELOPMENT PROGRAMS, AND GREATER GOV INTERTES IN HIGHER WORLD OIL PRICES. END SUMMARY.

1. ACCORDING TO A REPORT RELEASED MAY 4 BY THE CENTRAL BANK, FOREIGN EXCHANGE RESERVES HELD BY THE INSTITUTION DECLINED BY $715 MILLION DURING APRIL TO A LEVEL OF

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$7505 MILLION. THIS IS THE LOWEST LEVEL SINCE APRIL OF 1976, WHEN RESERVES FELL TO $7.4 BILLION IN THE WAKE OF THE NATIONALIZATION OF VENEZUELA'S PETROLEUM INDUSTRY. IN ADDITION IT REPRESENTS A DECLINE OF $1678 MILLION SINCE AUGUST OF 1977, WHEN RESERVES, BUOYED BY DRAWDOWNS ON MAJOR LOANS ABROAD, REACHED AN ALL TIME HIGH OF $9183 MILLION.

2. BLEOW FIND A COMPARISON, BY SECTOR, OF INFLOWS AND OUTFLOWS OF FOREIGN EXCHANGE DURING THE JANUARY -APRIL PERIODS OF 1977 AND 1978.

INCOME JANUARY-APRIL

$ MILLION

	1977	1978	PRCTG CHG
TOTAL	3069	4183	36.3
PETROLEUM	2204	2079	- 5.7
IRON ORE	53	34	-35.8
PUBLIC SECTOR	119	1473	1137.8
VENEZUELAN INVESTMENT FUND	160	248	55.0
OTHER	533	349	-34.5

OUTFLOWS JANUARY-APRIL

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	1977	1978	PRCTG CHG
TOTAL	3323	4719	42.0
COMMERCIAL BANKS	2223	3206	44.2
PUBLIC SECTOR	696	1138	63.5
VENEZUELAN INVESTMENT FUND	91	238	161.5
OTHER	313	137	-56.2

3. AS CAN BE SEEN FROM THE ABOVE TABLES, INFLOWS ATTRIBUTED TO THE PETROLEUM SECTOR WERE $125 MILLION LESS IN JANUARY-APRIL 1978 THAN IN THE SAME PERIOD OF 1977. THIS DECLINE IN REVENUE IS ATTRIBUTED TO THE DECLINE IN PETROLEUM SECTOR EXPORTS EARLIER THIS YEAR (CARACAS 1720). INFLOWS ATTRIBUTED TO THE PUBLIC SECTOR (PRIMARILY BORROWINGS) SHOWED A SHARP INCREASE IN 1978, RESULTING IN AN OVERALL $1.1 BILLION INCREASE IN 1978, RESULTING IN AN OVERALL $1.1 BILLION INCREASE IN THE CENTRAL BANK'S RECEIPTS IN JANUARY-APRIL OF 1978 OVER THE SAME PERIOD IN 1977

4. FOREIGN CURRENCY OUTFLOWS INCREASED BY $1.4 BILLION,

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HOWEVER, WHEN COMPARED TO THE FIRST FOUR MONTHS OF 1977.
OF THIS INCREASE, SALES OF DOLLARS TO COMMERCIAL BANKS
ACCOUNTED FOR ALMOST $1 BILLION, WHILE PUBLIC SECTOR
EXPENDITURES, PRIMARILY FOR FOOD AND CAPITAL GOODS IMPORTS,
WERE UP $442 MILLION. BEGINNING IN NOVEMBER OF 1978,
THIS CATEGORY SHOULD INCREASE SUBSTANTIALLY, REFLECTING
INCREASED PAYMENTS TO FOREIGN CREDITORS AS A RESULT OF
THE MAJOR INTERNATIONAL BORROWINGS INITIATED IN LATE 1976.

5. MANY OBSERVERS ATTRIBUTE PART OF THE SHARP INCREASE
IN SALES OF DOLLARS TO COMMERCIAL BANKS TO A REPORTED
INCREASE IN REMITTANCES ABROAD AS A HEDGE AGAINST THE UNCERTAINTIES
OF AN ELECTION YEAR (SEE CARACAS 437). IN SUPPORT OF THIS
CONCLUSION WE HAVE THE FOLLOWIING (INDIRECT) EVIDENCE:
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--U.S. BANK REPS ADVISE THAT TRANSFERS OF DOLLARS
ABROAD ARE AT A RELATIVELY HIGH LEVEL.

--ACCORDING TO GOV SOURCES, THE VOLUME OF IMPORTS INTO
VENEZUELA WAS LESS IN THE FIRST FOUR MONTHS OF 1978 THAN
FOR THE SAME PERIOD OF 1977. INCREASED SALES OF
DOLLARS TO COMMERCIAL BANKS ARE THEREFORE PROBABLY NOT BEING
USED TO PAY FOR INCREASED EXPORTS.

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--AT THE SAME TIME, THERE IS A CONTINUING SHORTAGE OF
LIQUIDITY IN THE VENEZUELAN ECONOMY IN SPITE OF EFFORTS
BY THE CENTRAL BANK TO INJECT NEW FUNDS INTO THE BANKING
SYSTEM. THIS TENDS TO SUPPORT THE CONCLUSION THAT
INDIVIDUAL BUSINESSMEN ARE TRANSFERRING EXCESS FUNDS
ABROAD RATHER THAN RETAINING THEM IN BOLIVAR-DENOMINATED ACCOUNTS.

6. FOR A COMBINATION OF REASONS, INCLUDING A CONTINUED
HIGH LEVEL OF IMPORT PAYMENTS, INCREASED REMITTANCES ABROAD
AND INCREASED DEBT SERVICE PAYMENTS, VENEZUELA HAS ENTERED
A PERIOD OF DECLINING LEVELS OF FOREIGN EXCHANGE RESERVES.
FOR REASONS STATED IN REFTEL, THE TREND WILL PROBABLY
CONTINUE THROUGH 1978 AND INTO 1979. WITH $7.5 BILLION
IN CENTRAL BANK RESERVES, VENEZUELA CAN LIVE WITH THE
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SITUATION FOR SOME TIME. ACTUALLY, THE COUNTRY HAS MORE
THAN $7.5 BILLION IN RESERVE ASSETS TO DRAW ON.
VENEZUELA'S GOLD HOLDINGS ARE VALUESD AT ABOUT $42 PER OUNCE;
IF THE CENTRAL BANK WERE TO VALUE THIS GOLD AT
CURRENT MARKET PRICES, THE VALUE OF TOTAL FOREIGN EXCHANGE
RESERVES WOULD INCREASE BY OVER $1.3 BILLION. IN ADDITION,
THE CENTRAL BANK RESERVE FIGURE DOES NOT INCLUED ABOUT
$2.3 BILLION IN SHORT, MEDIUM AND LONG TERM FOREIGN
CURRENCY ASSETS HELD BY THE VENEZUELAN INVESTMENT FUND.
FINALLY, OF COURSE, THE RESERVE FIGURES DO NOT INCLUDE AN
ESTIMATED $1.5 BILLION IN DOLLAR ASSETS HELD ABROAD IN THE NAME
OF PETROLEOS DE VENEZUELA.

7. FROM THE U.S. POLICY PERSPECTIVE, DECLINING RESERVE
LEVELS DURING AN ELECTION YEAR IS IMPORTANT FOR THE FOLLOWING
REASONS:

A. IT MAY PROMPT THE GOV TO PUSH HARDER FOR OIL PRICE
INCREASES DURING FORTHCOMING OPEC MEETINGS.

B. IT WILL INCREASE PRESSURE ON THE GOV TO IMPOSE
ADDITIONAL IMPORT RESTRICTIONS.

C. IT MAY MAKE THE GOV LESS WILLING TO COMMIT ADDITIONAL
FUNDS TO INTERNATIONAL DEVELOPMENT PROGRAMS.
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